SEP 2 3 1982
1014-B Y4. F76/1 : Eu7/25/982-3

DEVELOPMENTS IN EUROPE, JULY 1982

COMPLETED ORIGINAL

HEARING

BEFORE THE

SUBCOMMITTEE ON EUROPE AND THE MIDDLE EAST

OF THE

COMMITTEE ON FOREIGN AFFAIRS HOUSE OF REPRESENTATIVES

NINETY-SEVENTH CONGRESS

SECOND SESSION

JULY 21, 1982

Printed for the use of the Committee on Foreign Affairs

Y4.F76/1:Eu 7/25/982-3

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON: 1982

I

COMMITTEE ON FOREIGN AFFAIRS

CLEMENT J. ZABLOCKI, Wisconsin, *Chairman*

L. H. FOUNTAIN, North Carolina
DANTE B. FASCELL, Florida
BENJAMIN S. ROSENTHAL, New York
LEE H. HAMILTON, Indiana
JONATHAN B. BINGHAM, New York
GUS YATRON, Pennsylvania
STEPHEN J. SOLARZ, New York
DON BONKER, Washington
GERRY E. STUDDS, Massachusetts
ANDY IRELAND, Florida
DAN MICA, Florida
MICHAEL D. BARNES, Maryland
HOWARD WOLPE, Michigan
GEO. W. CROCKETT, JR., Michigan
BOB SHAMANSKY, Ohio
SAM GEJDENSON, Connecticut
MERVYN M. DYMALLY, California
DENNIS E. ECKART, Ohio
TOM LANTOS, California
DAVID R. BOWEN, Mississippi

WILLIAM S. BROOMFIELD, Michigan
EDWARD J. DERWINSKI, Illinois
PAUL FINDLEY, Illinois
LARRY WINN, JR., Kansas
BENJAMIN A. GILMAN, New York
ROBERT J. LAGOMARSINO, California
WILLIAM F. GOODLING, Pennsylvania
JOEL PRITCHARD, Washington
MILLICENT FENWICK, New Jersey
ROBERT K. DORNAN, California
JIM LEACH, Iowa
ARLEN ERDAHL, Minnesota
TOBY ROTH, Wisconsin
OLYMPIA J. SNOWE, Maine
JOHN LEBOUTILLIER, New York
HENRY J. HYDE, Illinois

JOHN J. BRADY, JR., *Chief of Staff*
ROXANNE PERUGINO, *Staff Assistant*

SUBCOMMITTEE ON EUROPE AND THE MIDDLE EAST

LEE H. HAMILTON, Indiana, *Chairman*

L. H. FOUNTAIN, North Carolina
BENJAMIN S. ROSENTHAL, New York
BOB SHAMANSKY, Ohio
TOM LANTOS, California

PAUL FINDLEY, Illinois
MILLICENT FENWICK, New Jersey
TOBY ROTH, Wisconsin
OLYMPIA J. SNOWE, Maine

MICHAEL H. VAN DUSEN, *Subcommittee Staff Director*
ALISON BRENNER FORTIER, *Minority Staff Consultant*
DAVID PAUL BARTON, *Subcommittee Staff Associate*
KENNETH B. MOSS, *Subcommittee Staff Associate*

CONTENTS

WITNESSES

	Page
Hon. Robert D. Hormats, Assistant Secretary, Bureau of Economic and Business Affairs, Department of State	1
Thomas M. T. Niles, Deputy Assistant Secretary, Bureau of European Affairs, Department of State	3

MATERIAL SUBMITTED FOR THE RECORD

Steps taken by the European allies to insure the security of the Persian Gulf	14
French announcement of credit to the Soviet Union regarding the pipeline	15
U.S. assistance to the United Kingdom during the Falklands crisis	31
U.S. and NATO efforts to supplement NATO during the Falklands crisis	31
Security Assistance for Spain	32
Assurance for Spanish bases	33
NATO Command Relationship for Spanish and Portuguese forces	33

APPENDIX

1. Biographies of witnesses:	
Hon. Robert D. Hormats	35
Thomas M. T. Niles	35

DEVELOPMENTS IN EUROPE, JULY 1982

WEDNESDAY, JULY 21, 1982

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
SUBCOMMITTEE ON EUROPE AND THE MIDDLE EAST,
Washington, D.C.

The subcommittee met at 2:30 p.m., in room 2200, Rayburn House Office Building, Hon. Lee H. Hamilton, presiding.

Mr. HAMILTON. The meeting of the subcommittee will come to order. The Subcommittee on Europe and the Middle East today continues its series of monthly hearings on U.S. policies toward Europe and on the implications of recent developments in Europe.

The last hearing was held on April 29, 1982, nearly 3 months ago. The Chair would like to express his hope that we will be able to schedule these hearings on a more regular basis in the future, given the many critical foreign policy issues in Europe which the subcommittee needs to scrutinize carefully.

Today's hearings will focus primarily on the recent economic summit and NATO conference in Europe and developments which have occurred since, including the Presidential decision of June 18, 1982, to amend export controls on oil and gas goods and technology to the Soviet Union to include export of non-U.S.-origin goods and technical data by U.S.-owned or controlled companies abroad.

We are happy to have with us today the Honorable Robert Hormats, Assistant Secretary for Economic and Business Affairs, Department of State and Thomas Niles, Deputy Assistant Secretary for European Affairs, also from the Department of State.

Mr. Hormats, I believe you do not have a prepared statement. But would you like to make some comments before we turn to questions? You may proceed.

STATEMENT OF HON. ROBERT D. HORMATS, ASSISTANT SECRETARY, BUREAU OF ECONOMIC AND BUSINESS AFFAIRS, DEPARTMENT OF STATE

Mr. HORMATS. I would like to go through a few matters in a general fashion.

Basically, I think one has to acknowledge candidly that there are tensions in the United States-European relationship and address these clearly and candidly. Those tensions, I think, result in a number of factors. There are tensions in the trade area as a result of differences regarding the question of European subsidies on such things as steel and agriculture; there are differences and tensions relating to the question of economic sanctions and the pipeline; there are issues that we and the Europeans have on such questions

and broader matters, the broader subject of East-West economic relations and perhaps some other elements of North-South relations; but I think that the important thing that I would like to bring out in these hearings is not so much to focus on the tensions, although clearly we need to discuss these, but more importantly, to focus on the areas of overriding common interest and common agreement.

I think if one looks at the statements the agreements that emerged at Versailles, the agreements that emerged at the latest meeting of the executive committee meeting of the OECD, it is quite clear both sides realize we have to do two things: One, address the problems we face; but, two, build also on the many areas of common interest that the United States and Europe share.

I think these far outweigh the differences between us. There is clearly a feeling on both sides of the Atlantic that there are many subjects that we ought to move ahead on. One is trade, where there was agreement both at Versailles and at the recent meeting of the OECD executive committee that we need to work closely together to make improvements that are necessary in the international trading system.

There is an agreement at the OECD—also following up Versailles—that we need to work hard to improve the exchange of information on financial and commercial ties between the Western countries and the East because one of the things we have not been able to do in the past is use the OECD as a vehicle for getting better information on our relations with the East.

For the first time, we have reached agreement within the OECD that the Western countries will exchange information actively in order to get a better understanding of the various economic and commercial contacts between the West and the East. This is, I think, an important step forward.

Also, over the last couple of weeks agreement has been reached—and I believe it is an extremely important agreement which has perhaps not gotten adequate attention. It is an agreement to increase interest rates on Government-sponsored export credits.

This is not just done in the context of the East-West relations but in a broader context to increase interest rates closer to market rates and it also has the important effect of increasing interest rates on Government loans to the Soviet Union and thereby significantly reducing the subsidy element.

All these, I think, underline the fact that despite the differences and the issues that we face, we recognize common interests and indeed have made progress in a number of important areas.

I think that that progress can continue and I think it is a demonstration of the maturity and the wisdom of the relationship that we are able to move forward in certain areas even while we have differences in other areas.

In the East-West context, I think it is particularly important that we recognize that the last thing we or the Europeans want to do is to demonstrate divisions between us which can, I think, have an effect of weakening the NATO alliance at a time when that alliance should be particularly strong in the face of the continued situation in Poland and other areas of the world.

I think that that is an important factor which motivates the United States and Western Europe to work together; and we also, I believe, recognize that we have a very intimately related economic relationship and that the prosperity of Western Europe is important to the prosperity of the United States; the prosperity of the United States is important to the prosperity of Western Europe.

There is always a tendency during periods of low economic growth and high unemployment for countries or groups of countries to look inward; and I think we must recognize today that we face a serious unemployment situation on both sides of the Atlantic.

The U.S. unemployment situation is well known to you. In the OECD countries of Western Europe, the unemployment rate is something on the order of 1½ million which is the highest of the postwar period. I think these sorts of measures can push countries to look inward.

Yet we recognize that after World War II, when the Europeans were really flat on their backs, there was a strong recognition on the part of the United States and Western Europe that we needed to work together to strengthen the international trading system, to build the GATT, the World Bank, the OECD, and the European community.

The importance of this sort of cooperation is no less necessary today than it was in that period just after World War II. The problem is to try to resist the pressures to look inward and to recognize that while it may be more difficult during periods of economic troubles to take an outward looking point of view, to concentrate on improving the trade system and dealing with a number of these other problems, it is still imperative for the United States and Western Europe to really have a common interest in doing this.

So with that introductory statement, Mr. Chairman, I would conclude.

Mr. HAMILTON. Thank you, Mr. Hormats.

Mr. Niles, do you have a statement you would like to make?

STATEMENT OF THOMAS NILES, DEPUTY ASSISTANT SECRETARY, BUREAU OF EUROPEAN AFFAIRS, DEPARTMENT OF STATE

Mr. NILES. I might make just a few remarks, Mr. Chairman, on some of the points Mr. Hormats did not cover. Obviously, I fully share his view that while there are problems in the United States-Europe relationship, we don't want to be totally preoccupied with them. We have made significant progress in recent months on dealing with some of our common objectives.

I think the two summit meetings Bob referred to, the seven nation summit at Versailles and the Bonn summit of the NATO Allies both represented significant achievements. In the case of the NATO summit, I might point out the fact that the admission of Spain into the alliance certainly gave the impression which we all believe is correct of a growing dynamic Western community welcoming a new democratic country.

The agreement at the Bonn summit to improve NATO conventional defense capabilities was also something we regarded as an

important step ahead. So I think what we need to do is as Bob said, to recognize that there are serious problems, as always, between North America and Western Europe; but that the sense of community is clearly recognized on both sides of the Atlantic. I feel we can work these problems out.

Mr. HAMILTON. Yes, thank you very much.

I think one of the things that concerns me is the gap that apparently exists between the way our leaders speak of United States-European relationships and the way European leaders now speak of them, particularly in light of the pipeline decision.

For example, in the June 30 news conference of the President in response to questions relating to the pipeline decision, the President had this to say about United States-European relations:

"I think there was disarray with our European allies. I think that has been largely eliminated and they have confidence in us once again."

If you compare the tenor of that remark with the kinds of remarks that are now coming from our European leaders, you get the impression that the leaders on both sides of the Atlantic are talking about two different relationships. For example, Mr. Schmidt describes the threat to the Alliance relationship as very, very sad. Prime Minister Thatcher says, "The question is whether one very powerful nation can prevent existing contracts being fulfilled. I think it is wrong to do that."

The West German economics minister says that the pipeline decision "also contributes considerably to a drifting apart of one country from another."

The French President, Mr. Mitterand, has been even stronger. He says that Washington has demonstrated a "Grave lack of solidarity with its allies." And on United States-European relationships, he said, "Let's just say there has been too much American monolog." His French foreign minister has likewise had some very harsh things to say.

If you look at the American press, you also see a great many statements these days characterizing the United States-European relationship as being in very difficult circumstances. One of the writers in the New York Times the other day said that relations among Europeans and Americans are at the lowest point in recent history, some say the lowest point in postwar history. The Wall Street Journal said the rhetoric sounds more like that of enemies than of allies.

The Post writes and says the U.S. pipeline decision and the European response suggests a widening gap between Washington and Europe in their fundamental approaches to the Soviet Union.

What I would like to suggest to you is that one of the reasons you have tensions is because the European perception is that we think there isn't any problem, and when the President so states in his news conference that contributes to the tension.

Do you care to respond to my comments?

Mr. HORMATS. In the economic areas, as I indicated, Mr. Chairman, from the economic perspective, there are I think clearly some important differences between the United States and Western Europe and I think that the way to go about dealing with these as

I indicated very briefly in my opening statement is to recognize that there are important differences.

There are differences of perception, there are differences of substance, there are differences that are not going to go away easily but I think which will only be resolved if we can deal with them in a candid, frank, and constructive way.

Steel is a good example; agriculture is another; differences over East-West economic issues and we have made, I think, an important effort in at least trying to get a handle on these issues.

The Europeans asked for in a statement they made on June 29, an effective dialog to take place between those in the United States and the community responsible for decisions in the areas of possible dispute; and they said that should be instituted as a matter of urgency.

I think that that dialog really is the beginning of two things. One, a recognition of the problems; two, a recognition that we have got to manage them better.

Mr. HAMILTON. I don't have any quarrel with what you are saying, Mr. Hormats. But what you are saying and what the President is saying are two different things.

Mr. HORMATS. Well, I don't think we would say that we didn't have problems in such areas as steel——

Mr. HAMILTON. He came pretty close to it. He said, "I think there was disarray with our European allies and I think that has been largely eliminated and they have confidence in us once again."

Mr. HORMATS. Well, I wouldn't say there is—maybe I better stop where I am. [Laughter.]

Mr. HAMILTON. Let me go to some specific questions. I think the point has been made.

DELAY ON THE YAMAL PIPELINE

What is your judgment about delay on the pipeline? I think you said to us the last time you were before us that you estimated the delay would be 2 or 3 years. I notice Mr. Lambsdorff said yesterday when he was here that he didn't think there would be any delay at all. I think I saw that in the paper today.

What is your judgment now as to what the delay will be?

Mr. HORMATS. I think the point I was trying to make in the last hearing was that the likelihood is that delays are inherent in a project of this nature. It is very hard to say precisely what the delay will be as a result of the sanctions. There probably will be some measure of delay, but it is extremely hard to know because one can't really predict what the reaction is going to be, whether the Russians will try to use their own compressors which are less than the 25-megawatt compressors which they had ordered from the West or whether they will try to go ahead with another order from the West of a different type of compressor or the same compressor or something of that nature.

We simply don't know what they are planning to do or what the Western Europeans have decided to do, so that it should depend in part on what that decision is as to what the nature of the delay is and that really, I can't say.

98-041 O - 82 - 2

I would say that the project of this nature, in that type of terrain, which is normally susceptible to delays probably is going to be delayed to some degree even without sanctions. How much additional delay will result from the sanctions is at this point very hard for me to predict with any degree of certainty.

Mr. HAMILTON. One of the reasons for the decision is to try to delay it, is it not? Isn't that a factor?

Mr. HORMATS. Yes. Yes. The decision itself was designed, in effect, to react to the lack of progress in Poland. One of the impacts could, in the minds of some, be to delay the pipeline; but I wouldn't want to predict just how much it would delay the pipeline. The decision itself was not made to delay the pipeline. It was made to react to the events in Poland.

Mr. NILES. Mr. Chairman, if I might comment, I don't know exactly what Otto Lambsdorff said yesterday, but the Europeans have said that the Soviets can deliver the gas, additional supplies of gas which they are contracted to begin supplying, in 1984, through one or both of the two existing Soviet pipelines which go into Western Europe.

These pipelines are said to have about 25 or 30 percent unused capacity at this time because of low market demand, a weak market for Soviet and all other gas in Western Europe right now.

They could theoretically begin additional supplies of gas to Western Europe without actually completing the Yamal pipeline.

CONDITIONS REGARDING SANCTIONS

Mr. HAMILTON. Have we refined our conditions we set forth with regard to the sanctions—the lifting of martial law, the releasing of the detainees, and the beginning of a dialog and reconciliation with Solidarity and the church?

Mr. NILES. Those are the three conditions.

Mr. HAMILTON. Those conditions must be met in some manner in order for the sanction to be lifted; is that right?

Mr. NILES. That's correct.

Mr. HAMILTON. Do all three have to be met?

Mr. NILES. We have not defined that. Obviously it would, I think, be impossible to lift the sanctions without significant progress in Poland which would imply significant progress on all three counts.

Mr. HAMILTON. What have we said? Significant progress has to be made in Poland with respect to those three conditions?

Mr. NILES. Without defining exactly what significant progress means. Clearly you would have to make progress and significant progress on all three points.

Mr. HAMILTON. Mr. Roth?

Mr. ROTH. Thank you, Mr. Chairman.

INTERNAL CONDITIONS OF THE GERMAN SOCIAL DEMOCRATIC PARTY

Last month, in early June I believe, Chancellor Schmidt suffered quite a defeat in Hamburg. What does this signal about internal conditions of his party?

Mr. NILES. The Social Democratic Party had a majority in the city assembly in Hamburg, city-state assembly. In the election, they lost their plurality, the Christian Democratic candidate or

slate came out slightly ahead and a new group came into the Parliament for the first time, the so-called alternative list, Green Party.

As a result of the election, the Social Democratic Party government, under Governing Mayor Von Dohnanyi, cannot have, does not have a majority, but unless an alternative government is formed by the CDU and the Greens, which we doubt will happen, that government cannot be overthrown.

In terms of broader implications, we feel that the elections in Hamburg clearly indicate a decline in popular support for the Social Democratic Party. It is now in some national polls shown getting as low as 33, 32 percent, having received roughly 43 percent in the 1980 elections. That is a significant decline in popular support.

Chancellor Schmidt's coalition partner, the Free Democratic Party of Foreign Minister Genscher, went below 5 percent in Hamburg so it fell out of the city assembly altogether. Once again, the Free Democratic Party is threatened by falling out of national prominence, perhaps becoming in the 1984 elections the fourth party after the so-called alternative list.

So it does pose a threat to the coalition. There is no question about it. Relations between the two parties have not been amicable on a number of issues. They have had trouble with the budget for 1983, although they have now reached a compromise there, which involved very substantial cuts in social programs.

There are state elections this fall in Hesse and Bavaria.

Mr. ROTH. Is the Chancellor still personally popular or is he going down, too?

Mr. NILES. I think his popularity has probably gone down a little bit with his party, but the polls seem to indicate that the Chancellor is still the most popular politician in Germany, more popular than the CDU leader, Helmut Kohl, Franz Joseph Strauss, or any alternative leader. That's what the polls say right now.

GERMAN ENDORSEMENT FOR INF DEPLOYMENT

Mr. ROTH. I notice in their recent convention in—I believe—Munich, they endorsed the INF deployment?

Mr. NILES. They supported the decision.

Mr. ROTH. But said the Soviets and the United States have to make progress at the START talks and in the other arms control negotiations. Will that endorsement—enthusiasm—if you can call it that, for INF deployment continue?

Mr. NILES. Yes. We are confident that barring an agreement in the INF negotiations which are currently underway in Geneva, that the deployment schedule which involves beginning the deployments in the late fall of 1983 will be followed by the Federal Republic of Germany.

The Chancellor has so stated. The Social Democratic Party agreed at its April convention to hold a second special convention in the fall of 1983 to review progress in the negotiations to determine whether deployment should proceed; but we are confident that barring an agreement which would obviate the need for proceeding with deployment, we are confident that the Social Demo-

cratic Party Congress in the fall of 1983 will decide to proceed with deployment.

Mr. ROTH. I don't mean to debate the issue with you, but there is a point I am trying to understand. If the SPD is weak now and getting weaker, it would seem to me you are going to have a problem with the deployment of the INF?

Mr. NILES. There are influential figures, influential groups within the Social Democratic Party that do not support deployment. I would not deny that. The Chancellor has made clear that he supports the decision and he has been supported by a majority in the party. The conventional wisdom in Germany was that if the current coalition parties, the Free Democrats and the Social Democrats could agree on the 1983 budget—which they were able to do—and get over this very heated disagreement between them, that this particular coalition government would survive until the October 1984 elections.

This is the conversational wisdom which has not always been so wise in the outcome. That's the way people see things right now.

Mr. ROTH. That's like me going to Germany and saying, don't worry, we are going to have a balanced budget because the President is committed to it. He has to get it through Congress. No matter what is said, the Chancellor has some people that have to agree with him.

Mr. NILES. The question is whether the Social Democratic Party would abandon its Chancellor and effectively give up power in Germany, over the INF issue and this is what would happen if the party voted against INF deployment. That's my personal conviction.

The Chancellor has staked his political future on carrying out both sides of the NATO decision of December 1979, as has the Foreign Minister.

IMPACT IN EUROPE OF SECRETARY HAIG'S RESIGNATION

Mr. ROTH. What impact did Secretary Haig's resignation have in Europe?

Mr. NILES. There was concern over the Secretary's resignation. You may recall the Chancellor had announced prior to the Secretary's appointment in 1980 that Mr. Shultz, now Secretary Shultz, was his candidate to be Secretary of State. So as far as the Germans, and I think most Europeans were concerned, they certainly regretted the Secretary's resignation, but were very pleased that the President selected Secretary Shultz to replace him.

I think they were particularly pleased there was no long interregnum; that the announcement of the resignation and the appointment were simultaneous.

PRESIDENT REAGAN'S EUROPEAN SPEECHES

Mr. ROTH. On another matter, when the President gave his various speeches in Europe, I heard they were very well received.

Mr. NILES. That's correct.

Mr. ROTH. He gave a speech in London where he talked about leaving Marxist-Leninism in the ash heap of history. How was that received in Europe?

Mr. NILES. Except for the Marxist-Leninism, I think they probably agreed with the President. The President was speaking, I think, figuratively. The forces in the West, the democratic ideals which we stand for, which our allies stand for, are clearly today in the ascendency. The Marxist-Leninist philosophy has shown itself—most notably in Poland—incapable of solving problems, and I think is being increasingly discredited. I think this is being seen in Western Europe.

I don't feel and I don't think anyone else would argue that Marxism-Leninism today in Western Europe or for that matter in Eastern Europe is a very dynamic, vibrant force. Even in the so-called Third World we don't see Marxism-Leninism attracting great support. I think the inability of the Soviet Union to solve its own economic problems with any success discredits the Soviet Union as a model for the developing countries of the Third World.

FRENCH PARTICIPATION IN THE BONN SUMMIT

Mr. ROTH. I see that the French were very active at the Bonn Summit and seemed to get along very well with President Reagan. Is there any indication that we may get them to work a little closer with NATO or even possibly get them back into NATO at some time?

Mr. NILES. President Mitterrand attended the ceremonial dinner in Bonn on June 9, marking the ceremonial opening of the NATO summit, which we regarded as being a very important development. Prime Minister Mauroy attended the summit itself on the 10th rather than the Foreign Minister who might ordinarily have attended for France. We were very pleased with that.

I think in a very significant development, the Government of France, for the first time since 1966, will host a NATO Foreign Minister's meeting in Paris next spring. Mr. Cheysson invited his colleagues to come to Paris.

This was at the recent Foreign Minister's meeting in Luxembourg. That invitation was accepted with great pleasure by the other foreign ministers. I think this demonstrates a closer relationship between France and NATO certainly on the political side.

On the military side, the Government of France, President Mitterand, has indicated that they plan no change in the traditional French policy of remaining separate from the integrated military structure of the alliance but obviously maintaining good relations with their allies.

So I would not expect France to change its basic posture.

Mr. ROTH. We are going to deploy INF as of December 1983; right?

Mr. NILES. The end of 1983, right.

Mr. ROTH. Thank you, Mr. Chairman.

Mr. HAMILTON. Mr. Shamansky.

Mr. SHAMANSKY. Thank you, Mr. Chairman.

Mr. Hormats, I have a great deal of sympathy for your job today. We constantly hear criticisms of the media that they only print bad news and why don't they print good news; and you are saying, let's not talk about the bad news, we will come up and talk about the good news. I don't know what else you can do under the cir-

cumstances, and I don't want to be the skunk at the garden party, but I think that is a little bit——

Mr. HORMATS. I am willing to talk about both.

OECD CREDIT AGREEMENT

Mr. SHAMANSKY. OK. I would like specifically to get back to your reference to the possible agreement. You said it was implied that there was an agreement among the parties that there would be higher interest rates, increased interest rates on Government-sponsored exports or loans, guaranteed loans.

It seems now that maybe the French had a secret agreement with the Soviets that sort of precludes that, in fact. Isn't that more of an ephemeral agreement rather than something substantive?

Mr. HORMATS. You are referring to the OECD credit agreement? Let me discus that for a moment. I think it is important. I didn't mean in my statement to say I only wanted to talk about the good news.

Mr. SHAMANSKY. You didn't stress the bad news.

Mr. HORMATS. That is fair. I do think there are clearly, as I indicated, in response to the chairman's question, there are major problems which we have to address; but I was really trying to make the point that in addressing those, we have still tried to make progress, indeed in some cases succeeded in making progress in areas where we have identified a common interest.

Mr. SHAMANSKY. I am challenging you on that, in other words.

Mr. HORMATS. I understand that. Let me go through the basic points about the OECD agreement, because I think it was an important agreement. It did a number of things. I think it is probably worth taking a moment of the committee's time to go over them.

One, it raised countries that have over $4,000 per capita into what is known as category 1 among the borrowing countries which is the highest category. That includes the Soviet Union. What it has done, in effect, is to take countries that were already in category 1 and raised the interest rates on lending from 2- to 5-year repayment periods from 11 to 12.15 percent and where loans have repayment periods of 5 to 5.85 years raised the interest rates from 11.5 to 12.4 percent.

It also raises interest rates for category 2 countries which are the middle-income countries, the poorer countries stayed where they are, at 10 percent.

The significance of this is that it enabled countries, including France, I might say, to move their interest rates closer to market rates which reduces the subsidy element in Government lending. Obviously, in any agreement that you reach internally, you don't get all you want. We might have preferred somewhat more, somewhat higher increases; but the fact that countries were in the last couple of weeks able to reach this agreement which did, in fact, raise interests rates is a plus; it is not a panacea.

EUROPEAN ADHERENCE TO THE AGREEMENT

Mr. SHAMANSKY. Is it your contention that, in fact, the European powers are adhering to the agreement even to the limit—as you de-

scribe them? I am not looking for the ideal, but what was agreed upon? You said this is what we agreed to do; are they doing it?

Mr. HORMATS. So far as I know, they have adhered to the agreements in the past. This is not yet into effect. I think some of it goes into effect in October. Part of it is in effect now.

The category 2 countries are being phased in over a period of time. I have no reason to doubt countries are adhering to it. I would also make one other point that relates to the Soviet question. That is this: If you go back to July—before July 1980, this so-called OECD or JASA agreement had lending rates to the Soviet Union of 7.75 percent.

In July 1980, that was increased to 8.5 percent. Now as a result of this new agreement, lending rates to the Soviet Union are 12.4 percent. That is an important step up in interest rates to the Soviet Union and more importantly represents a substantial decrease in the subsidies involved in Government export which I think is a step in the right direction.

That is the point I was trying to make.

U.S. DECISION TO LIFT THE GRAIN EMBARGO

Mr. SHAMANSKY. As long as we are in the economic area, I see a basic contradiction. It is not the only place I find a basic contradiction some time with the administration, but I understand and have sympathy for the decision by the President to lift the grain embargo because of domestic political campaign promises that he made in 1980 and he is proud of the fact he keeps his campaign promises. And he did.

I don't know why, though, that we then look upon the Europeans and say they don't operate under the same political constraints that we do; and that's just a basic logical disconnect that I have with the administration policy. Is it that we just say it and do it because that's what we say?

Mr. HORMATS. No. They do operate under the same constraints that we operate under. They have their political pressures just as we have ours.

Mr. SHAMANSKY. But we are wagging the finger at them, saying you are bad guys for caring about export to the Soviet Union and it does all those things, but we reserve the right to sell the grain. That doesn't seem to present a problem?

Mr. HORMATS. It is something that we are still in the process of working out. No final decision has been made.

Mr. SHAMANSKY. What does that mean? Really? I read the Washington Post today and Evans and Novak promised me the President wasn't going to change his mind.

Mr. HORMATS. Well, if they promised, who am I?

Mr. SHAMANSKY. I just wanted you to know my authority.

Mr. HORMATS. Let me address the question of the grain issue.

Having looked at the background of the grain sanctions before the embargo, I am quite convinced that it really had one major effect and that is that it hurt American grain exports. It was circumvented to the point where it really had no effect except to help other countries who did not traditionally have markets in the Soviet Union to develop those.

Mr. SHAMANSKY. You mean like our friends the Argentines?

Mr. HORMATS. Precisely. They went up from almost no exports to 11 to 13 million tons.

Mr. SHAMANSKY. They are merely authoritarian, so it's OK.

Mr. HORMATS. I wasn't justifying it.

Mr. SHAMANSKY. I wanted to make sure I had the right outfit.

Mr. HORMATS. It hurt our farmers. That was the basic point I was trying to make about it.

Mr. SHAMANSKY. You are saying it did hurt, it did hurt our farmers?

Mr. HORMATS. The grain embargo? Sure.

Mr. SHAMANSKY. Are you suggesting, though, that not proceeding with the gas pipeline would not hurt Western Europe? That's the analogy?

Mr. HORMATS. No. No. I wasn't arguing that point. I was simply referring to the first part of your question. The second part, yes, it will have—and I think we realize it will have an impact on firms in Western Europe, as reflected in the statement that Prime Minister Thatcher made about the impact of this on John Brown, one of her companies. Sure it is going to have an impact.

INEFFECTIVENESS OF PIPELINE SANCTIONS

Mr. SHAMANSKY. I don't want to run this into the ground, but it seems to me there is a real problem for American foreign policy. It's just a dead end. The policy is going nowhere. It's a loser as we are perceiving it because it is basically illogical.

If you say well, that's just the way the President wants it, fine. I understand his power and his responsibility for those things. But to suggest that it's a good situation and we are going to look elsewhere for progress, that sort of worries me a little bit.

Mr. NILES. May I make a comment, Congressman Shamansky? It is true some of our friends in Europe, firms in Britain, Germany, Italy, and France do have some significant contracts which may be jeopardized by the measures taken by the President; but it is also significant that several American firms have equally significant contracts which are also put in jeopardy. It's not that the President was mindless of this problem nor that the burden is exclusively on our friends in Europe. There are major contracts which cannot be fulfilled by American companies as well.

EFFECT OF SANCTIONS ON U.S. INDUSTRY

Mr. SHAMANSKY. May I ask a question: Are there more farmers than there are employees of Caterpillar Tractor, in your opinion?

Mr. NILES. In my opinion, yes.

Mr. SHAMANSKY. I wanted to check with you. I think you are right. I think there are a lot more.

Mr. NILES. Although they tend to be concentrated in one district.

Caterpillar, of course, is not the only company, nor are the pipeline contracts the only contracts affected by the moves, actions the President took in response to the repression in Poland.

Since December 30, as a result of those measures, U.S. exporters have essentially been denied in the high technology area which is the only area where we really were competitive in the Soviet

Union. Our exporters have been effectively barred from that market. The two areas where U.S. companies have traditionally been strongest in the Soviet Union, traditionally since about 1970, data processing and oil and gas equipment, have been effectively closed off.

U.S. industry has been bearing a very significant burden, a very significant part of the cost of expressing our concern, the unacceptability of what the Soviets did in Poland. So it is not simply a one-sided, we decide and the Europeans pay, type case. We are paying a good part of the price ourselves.

UNITED STATES-EUROPEAN INTERESTS IN THE PERSIAN GULF

Mr. SHAMANSKY. Picking up that theme, if I may, as to what the Europeans pay or do not pay, I keep reading and hearing about the vital interests that the United States has in the gulf—we call it the Persian Gulf, but if you are in Saudi Arabia their maps say the Arabian Gulf, which is an interesting comment, it seems to me.

With the instability in that area, we seem to be the only outside power other than the Soviets which is prepared or is preparing to go in there with force. Yet, if I understand the statistics correctly, we are nowhere near as dependent upon that area's oil as is Western Europe.

My question is what steps if any—and I have not seen any—the Europeans are taking with respect to military concerns there? Other than, say, blaming Israel for being the problem? I am already into Khomeini now. Let's leave them out. The instability I am talking about is that generated by Iran.

What is happening in Western Europe with respect to their direct interests which I believe is greater than ours?

Mr. NILES. That is true. In terms of percent of oil which comes from the Persian Gulf region——

Mr. SHAMANSKY. Is there any significant——

Mr. NILES. There is indeed a significant European involvement in the area. I think particularly——

Mr. SHAMANSKY. Is it working out with ours? Are we sort of in parallel?

Mr. NILES. I would not want to compare what the British and French, who are the two——

Mr. SHAMANSKY. Would you describe it at all?

Mr. NILES. Well, under the circumstances, I would not want to describe it in any detail, but we——

Mr. SHAMANSKY. How about broadly?

Mr. NILES. We do have reason to believe that the British and the French share our concerns on what is going on in the Middle East and in the Persian Gulf region or Arabian Gulf region, as you like. The Arabian Sea, I guess, is what they call it.

The British have traditional relations with many of the countries in that area, sheikdoms of the Persian Gulf and with Oman?

Mr. SHAMANSKY. Mr. Niles, I hate to interrupt. I am aware of the traditional relations. I am asking you more specifically in terms of military power. We are preparing this force that cannot find a place to light in the area; but other than that, it is OK.

98-041 O - 82 - 3

What military forces, what plans do the Western Europeans have for making their military presence felt there in case their supply of oil is jeopardized?

Mr. NILES. Both the British and the French have military forces in the Indian Ocean area. The French have a military force of substantial size at Djibouti. I would not want to say how many. I think there are about 4,000 to 5,000 regular forces there.

The British and the French have units in that area. They recognize the significance of what is going on there.

Mr. SHAMANSKY. You are not terribly impressed by the means they have to enforce their concerns, are you?

Mr. NILES. Indeed I am.

Mr. SHAMANSKY. Really, a significant military power in the area?

Mr. NILES. I would say both Britain and France are in a position to understand the dangers and the stakes involved. The Europeans understand the importance of that region. There is no question about it. They are taking actions designed to insure that their interests are protected.

Mr. SHAMANSKY. That is very imprecise language. I am sure they are. It could be one soldier or three divisions. It is a broad range there.

Mr. NILES. Nobody is talking about three divisions. I do not think even the United States is talking about three divisions. In some European countries, the Federal Republic of Germany is constitutionally barred from military involvement outside the NATO area, or so they consider themselves; and the smaller NATO countries, the Benelux countries, do not possess the military forces capable of projection into that part of the world.

This was recognized in the Bonn communique, in the Rome communique that the NATO allies would respond as they are able to respond to threats outside——

Mr. SHAMANSKY. But you are not giving any estimate of the force available.

Mr. NILES. I am not in a position. I do not have the information available.

Mr. SHAMANSKY. Could you supply it to us?

Mr. NILES. I will supply it.

[The information submitted follows:]

The NATO treaty area does not include the Persian Gulf area. However, there is common agreement that there are areas outside of NATO which are of vital interest to the West. The Allies explicitly recognized this fact at the Bonn Summit meeting. The Summit Declaration reads in part, "Those allies in a position to do so will be ready to take steps outside the treaty area to deter aggression," and "facilitate possible military deployments beyond the NATO area [which] can represent an important contribution to western security." For example, the United States, France and the UK all sent naval combatants to the Persian Gulf area in the fall of 1980 at the outset of the Iran-Iraq war. Both France and the UK maintain defense relationships with countries in or near the area.

Mr. SHAMANSKY. Thank you, Mr. Chairman.

Mr. HAMILTON. Millicent.

Mrs. FENWICK. No, thank you, Mr. Chairman.

Mr. HAMILTON. All right.

U.S. DECISION ON THE PIPELINE

Why was the decision on the pipeline made after the European summit? I think it followed the summit by 2 weeks.

Mr. HORMATS. It was made because I believe the President and his Cabinet wanted to have a chance to assess the results of the discussions they had had in Europe and also assess the results of their analysis of the events in Poland.

I do not know why it was made on the precise day, but it was designed to be done after they had had a chance to reflect on the discussions which had taken place in Europe.

Mr. HAMILTON. Some of the Europeans have commented that the decision was a surprise. Do you agree with that observation?

Mr. HORMATS. That is one that as an observer in some of the meetings at Versailles I have wrestled with myself. I can tell you only what I know firsthand. That is it was quite clear in the discussions that were held on this issue prior to the summit that the credit issue was regarded by the United States as an extremely important one.

Jim Buckley and his colleagues had, I believe, three or four separate meetings on this where the point was stressed. There were a number of letters from the President and the Secretary of State which stressed again the point about the credits.

I cannot tell you because I was not in on all the meetings the degree of detail into which the discussions went about what precisely would happen if there were not more progress on Poland or there were not more progress on the credit issue. I simply do not know.

I think there was certainly a strong set of statements by the United States on the importance of the credit issue itself, but I simply do not know any more about the details of what went on in those specific meetings.

CREDIT SUBSIDIES TO THE SOVIET UNION BY FRANCE

Mr. HAMILTON. Shortly after the summit, did the French not announce a sale in which they subsidized credit very heavily to the Soviet Union?

Mr. NILES. I think you are talking about the Germans.

Mr. HAMILTON. No. I think the French, was it not——

Mr. NILES. The Germans announced the final signature of the credit agreement for the pipeline which was signed in Leningrad about 10 days ago.

Mr. HAMILTON. I do not have the specifics before me, but my recollection is that the French announced a major sale to the Soviet Union with heavily subsidized credit shortly after the Versailles summit; is that not correct?

Mr. HORMATS. I am not aware of it. We can check that out.

[The information submitted follows.]

No. The French concluded their pipeline credit arrangement with the Soviet Union well before the Versailles Summit. They have just affirmed that they will honor existing contracts.

Mr. NILES. Mr. Chairman——

Mr. HAMILTON. The Germans did?

Mr. NILES. If I may make an additional point.

Mr. HAMILTON. Let me check. Yes; the Germans announced a credit argument.

GERMAN LOAN AGREEMENTS ON PIPELINE CREDITS

Mr. NILES. The Germans signed the final loan agreements on the pipeline credit which had been negotiated in 1980. It goes back quite a long way. May I make one point in response to your question about the timing on the June 18 decision?

U.S. DECISION ON PIPELINE SANCTIONS

The President made it clear at the time the original sanctions were adopted in December—in his statement of the 29th of December—that if the situation in Poland did not improve, he would feel obliged to take further measures.

I do not know how anyone could look at the situation in Poland today and compare it to where we were on the 30th of December and looking at it on the 18th of June and say the situation had improved.

The President felt, as he explained at the press conference on the 30th of June, that he really was, as a matter of principle, bound to carry out the pledge which he made at that time. That is to say to take further steps. The Europeans were aware from the outset that the extension of the sanctions to cover licenses and subsidiaries of U.S. companies in Europe was one of the possibilities which the President was considering.

So to be surprised at what the President did, I think that stretches the concept of surprise just a bit.

Mr. HAMILTON. Was the decision of the President based in any way on our disappointment with the Europeans for not agreeing with us more completely on the credit issue?

Mr. NILES. No. The President has said——

Mr. HAMILTON. It seems to me from a diplomat's point of view that if you are going to make a major economic decision which you know will have adverse impact on your closest friends in the world, and that you are meeting with those friends a week or 2 weeks before you make the decision, that it would be wise and prudent to consult with those allies about a decision which would adversely affect them.

Mr. NILES. There was no——

Mr. HAMILTON. And that if no discussion of our pending decision occurred—then they probably had a right to be surprised.

After all, you are asking major companies to violate contracts; are you not? Are the French companies not going to have to violate contracts that they have entered into? And aren't you going to cause them, as well as American companies, billions of dollars worth of losses?

Mr. NILES. Millions, I would say. Substantial losses. Hundreds of millions of dollars.

Mr. HAMILTON. Did it not seem to you that that kind of thing should have been discussed when you were meeting with them in Versailles rather than to have hit them broadside 2 weeks later?

Mr. NILES. Well, Mr. Chairman, the possibility of this move was something which the Europeans were well aware of from the beginning; and the fact that the President had not taken this decision at the time of the original moves, that is the original sanctions on December 1 was widely commented upon in the press and it was something we did discuss with the allies, something of which they were aware—a possibility of which they were aware.

I was not present with the President when he had his meetings in Europe; Mr. Hormats was present for some of them. I do not know whether the subject came up. Again we understand, we are aware of the way in which our European friends have reacted to the decision. But they were aware of the possibility.

Mr. HAMILTON. I am inclined to think, Mr. Niles, that what you say is correct about their knowing that this decision was under consideration; but when the decision did not come prior to or at the time of the Versailles meeting, they thought that the decision would not go against them, and then 2 weeks later they were very surprised when it did. That is the scenario that has been put to me by some Europeans.

How do you respond to that?

Mr. NILES. Well, there could be missed signals between here and Europe. It would not be the first time. Again I return to my initial point, that the possibility was always there and when a decision is reached in the National Security Council, as this one was, it is very difficult sometimes to involve your allies at the last minute in such a decision.

Mr. HAMILTON. Let me ask you this: If the French or the Germans now extend subsidized credits to the Soviet Union, will they be violating any principles or understandings that were reached at the Versailles summit?

Mr. HORMATS. If they provided credit—let's take the French for a moment, since the Germans provide Hermes guarantees rather than credits.

The French do provide credits. If they were to provide credits which were lower than the rates that I read out a few minutes ago agreed to in the OECD, they would be in violation of the OECD credit agreement.

Mr. HAMILTON. Is that for contracts to be entered into in the future?

Mr. HORMATS. That is for any new credits.

Mr. HAMILTON. Beginning when?

Mr. HORMATS. Beginning as of the 30th of June.

COST TO UNITED STATES AND EUROPE ON PIPELINE DECISION

Mr. HAMILTON. What about the cost to the United States and Europe of this decision on the pipeline? Have you made statements as to how much United States and European companies are going to lose because of this decision?

Mr. HORMATS. I do not think we have any detailed numbers.

Mr. HAMILTON. Surely the President would have had some estimate of that when he made the decision?

Mr. NILES. We have got general estimates. We have not seen the contracts between AEG for example and the Soviets. We do not know what the figure is.

Mr. HAMILTON. What are your estimates, roughly?

Mr. NILES. We are talking about the turbine contracts, the three manufacturers—John Brown, Nuovo Pignone, and AEG Telefunken—probably in the area of around $750 million. That is a very much ball park guess, Mr. Chairman.

Mr. HAMILTON. Those are the European companies?

Mr. NILES. Those are the three European companies.

Mr. HAMILTON. What about the United States?

Mr. NILES. I have just been given a number here of $800 million.

Mr. HAMILTON. We had an estimate from the Under Secretary of Commerce, Mr. Olmer, that the sanctions will cost U.S. companies $1.2 billion in the next 3 years. How does that strike you?

Mr. NILES. I think that sounds about right. In terms of the pipeline directly, quite apart from exports for the oil and gas industry, we are aware of contracts which would be in the 300 or 400 million dollar range.

SECURITY ASPECTS REGARDING PIPELINE DECISION

Mr. HAMILTON. Let me ask you about the security aspect of this decision. Do you really see a sizeable threat to Western security with the building of this pipeline?

Mr. NILES. We see a situation Mr. Chairman which, in the case of the Federal Republic of Germany, the Soviet Union would have roughly 30 percent, 29 to 30 percent of the natural gas supply which in terms of the overall energy supply would amount to roughly 5 percent.

Now this is a figure which the Germans quote to us and they say that is not very much. Natural gas is a somewhat difficult fuel energy source to replace, given the supply network which is required for natural gas transmission and utilization.

It is not easy to switch off natural gas. So natural gas can be a somewhat more sensitive commodity than either oil or coal or certainly electric power.

We feel that it is, in terms of the dependability of energy supplies, unwise to put 30 percent of one's natural gas supplies in the hands of the Soviet Union.

Mr. HAMILTON. Does it give the Soviet Union leverage over the Western European countries?

Mr. NILES. It gives a potential for the Soviet Union to exercise a certain amount of pressure should the Soviet Union so choose to do. This potential is again what we are concerned about. It also creates a situation, Mr. Chairman, in which the development of alternative supplies in Western Europe could be made more difficult because the market share might not be there.

If we are talking, for instance, about developing some rather expensive and rather difficult, technologically difficult, natural gas resources in the North Sea, there might be some reluctance on the part of the governments and the businesses, and the banks involved to put up the money and the equipment for these develop-

ments if they were not sure that there would be a sufficiently large market available to take the gas.

Mr. HAMILTON. So one aspect in your thinking about the sanctions is your concern about Western security.

Mr. NILES. This is correct. This is a matter of concern. It is a matter of concern which the President raised with the allies at the Ottawa summit in June or July of 1981; but this was not the reason for the decision of June 18.

As the President made clear, that was related to Poland.

Mr. HAMILTON. So that even though the threat to Western security would remain, if the sanction conditions were met for Poland, the sanctions would come off?

Mr. NILES. The President made clear in his press conference on June 30 if the three NATO conditions were satisfied he would remove the sanctions. That does not mean that we feel the pipeline is a good idea. We do not.

Mr. HAMILTON. Are you confident you can win the lawsuits?

Mr. NILES. I am not a lawyer. I really do not think I should comment.

Mr. HAMILTON. Somebody over there must be?

Mr. NILES. Yes.

Mr. HORMATS. The Commerce lawyers. We can only take——

Mr. HAMILTON. The Commerce Department lawyers?

Mr. HORMATS. Commerce is the agency empowered to enforce these. Their lawyers are the primary writers of the regulation. They believe that these——

LEGAL BASIS FOR PRESIDENT'S DECISION REGARDING PIPELINE

Mr. HAMILTON. What kind of a legal basis do they have? I can understand the French or the private companies' problems. They have a contract and license and they operate on the basis of that, and they have entered into a contract with the Soviet Union.

Now they are going to be hit for violation of their contracts; what is the legal basis for the President's action here?

Mr. HORMATS. I do not know all the provisions of the law. I think the best thing is to give you a paper that Commerce has sent out which provides all the legal justifications. That would probably be easier than trying to recite them here.

Mr. HAMILTON. I know it would be easier.

Mr. HORMATS. Anyway, I do not know them. That is the only practical thing to do.

Mr. NILES. Written by lawyers.

Mr. SHAMANSKY. It will be written very clearly, concisely, always. That is right.

Mr. HORMATS. And laws.

Mr. HAMILTON. Mrs. Fenwick.

Mrs. FENWICK. Thank you, Mr. Chairman.

EFFECT OF SANCTIONS ON U.S. INDUSTRY

I felt the President was wise when he gave up the wheat sanction. It was not working. The Soviet Union was getting wheat anyway. The Afgans are important. They need our sympathy and the world ought to know how we feel; but when something does not

work, commonsense, prudence, and a regard for our people here dictate a change of course. It seems to me that is so.

I am stunned, frankly, by this sanction decision; 2,000 more people laid off at Caterpiller in Peoria, Ill., announced last Monday in the paper simply to enable the Japanese to build the trucks or whatever the equipment was. I do not understand it.

In this country, we faced a situation for years in which money was poured into programs because the intention was high and benevolent and without regard to effect, without regard to any programmatic judgment as to whether or not the sacrifices that the taxpayers were making delivered what they were intended to deliver.

This is what we are facing now.

Are we indifferent to the loss of 2,000 jobs in Caterpiller? Why should they go to the Japanese? If sanctions had any effect in helping anybody or anything, if they contributed one package of food to the Poles who had a bad winter, I would feel differently. I just do not know how to convey what I must tell you. I go back to my district every weekend, I talk to my colleagues, I find that when people say "I think I better write the President," I say, "You bet you'd better." I do not know what else one can do.

How long, O Lord? How many jobs do we have to lose? How many foreign companies will profit from our loss? If I had been going to Versailles, knowing that this whole business is not working, I would have said, "As long as you insist on hard currency or gold, that is OK by me." That is all; the loss of credit would hurt and further we know that when somebody owes you money, they have you over the barrel.

Mr. HORMATS. Let me just comment on both points. I think in the grain embargo, as we discussed a few minutes ago, I agree with you it was not working and therefore it hurt the American farmer without hurting the Soviet Union.

I think that it was not an appropriate vehicle for doing anything except hurting us, which was not an effective policy, to be sure.

CREDITS TO THE SOVIET UNION

On the credit issue, let me just briefly talk about that for a moment. In my judgment, the West has made a set of judgments about the question of credit to certain countries, and one of the problems with the pipeline, quite frankly, is that the financial risk is very largely borne by the West. That really is one of the great problems, because it is built in many cases—in the case of most parts of the pipeline—on the basis of Western credits or Western guarantees.

In some cases, particular countries have not only provided the financing but also financed the downpayment for the financing; and that has created a certain amount of leverage or vulnerability which I think is one of the little known elements of the pipeline.

If there is nonpayment, if somehow there is a cutoff of the gas, the Soviets do not get the revenues and it is not just they do not get the revenues, the banks and the governments who have guaranteed and lent the money do not get money because the Soviets have not been able to export the gas.

So there is that other element which I think is a problem.

But I think in the long run, what is happening now is the Soviet Union, as a result of the poor performance of the Soviet economy and the caution of the international bankers and governments, has been able to get less and less money through borrowing and we have seen this. They are beginning to understand that this is a squeezing factor for them.

Mrs. FENWICK. You may remember a program I saw, on television news. The President of Armco Steel had been negotiating a contract with the Soviet Union for many, many, many months at great expense. I think it was Mr. Carter who canceled that contract. It was picked up in 2 days by Cneusoy-Loire. Sanctions are wonderful if they work. The action of European Economic Community in regard to the Falklands was an example. When you have unanimity among those who are the major suppliers, then you are making sense.

Thank you, Mr. Chairman.

CHANGE IN SECRETARIES OF STATE

Mr. SHAMANSKY. I would just like to comment that the administration in the last few months backed a bill for bringing gas from Alaska to the lower 48 and if the pipeline does not get built, we consumers in Ohio are going to be paying for it anyway. So it is not an unheard-of sort of thing here where the consumers are bearing the expense, and we would not even get the benefit of the gas which is the next step up, it seems to me.

If I may, I would like to comment on the change of Secretaries of State. I am desperately hoping that formulation of foreign policy in this administration will take on what I would call a more orderly aspect. It seems to me that we have had about seven Secretaries of State at any one time. It just depends on who jumps in. I have said this to both Mr. Haig and Mr. Weinberger. I subconsciously found myself referring to Secretary of State Weinberger. I hope this will be cleared up and that Secretary Schultz can function as the Secretary.

I am not asking you to assure me that is the way it is going to be. Time will tell. If the other people cannot take their hands off of his job, and if he is as strong as I think he is, he cannot put up with it because you cannot operate in that fashion.

I am concerned specifically with the role of the National Security Adviser, National Security Council Director. According to what I read, his principal qualification is that he has the confidence of the President, as if you would ever imagine having a National Security Adviser that did not have the confidence of the President. That raises the question, what else does Mr. Clark bring to the job other than the confidence of the President?

Certainly there is nothing in his background which immediately recommends him for anything other than a confidant? Again I am not asking you to comment. This is not your job. It does, I respectfully submit to you, have a great deal to do with the foreign policy of the United States and how the administration thinks about its formulation and execution of policy, which clearly affects Europe and the Middle East which is the jurisdiction of our subcommittee.

Now the illustration we were discussing here about when you announce to our European allies you are going to cut this, it was not just quite the roll of the dice. You are suggesting, well, they were warned since last December that the other shoe was going to or could drop sometime. I think the chairman properly was saying there are other ways than a mere random manner of doing it. Here is the day; let it go at that.

I can assure you that the—well, I think this committee, certainly this subcommittee, has cooperated in quite a—in what I might say is a very nonpartisan fashion and is quite concerned. I hope that we can get foreign policy formulation and execution into the hands of the Secretary of State. I think we would all be benefited thereby.

Thank you, Mr. Chairman.

U.S. INTERVENTION IN THE CURRENCY MARKETS

Mr. HAMILTON. Let me raise a question or two about our indication at the Versailles summit that we are prepared to intervene in the currency markets to correct disorderly conditions. Is that a change of policy?

Mr. HORMATS. The policy has been in the past and is today that we would intervene where there was disruption in currency markets, but would not intervene to try to set or to hold any particular exchange rate. The reasons for that are that the foreign exchange market on any given day can see exchanges of $25 to $30 billion from one currency to another and for governments to intervene, to try to set a particular rate, as has been demonstrated in the past, simply doesn't work and is unlikely to work.

Mr. HAMILTON. Prior to the Versailles Conference, we intervened one time in the currency markets. That was on the date of the Presidential assassination attempt.

Mr. HORMATS. Subsequent to Versailles, we intervened just when the Europeans realined the SNAKE, or the European monetary system.

Mr. HAMILTON. Did that create a disorderly condition?

Mr. HORMATS. There were very major movements in currencies including such currencies as the deutschmark.

Mr. HAMILTON. So the administration has intervened twice in the currency market?

Mr. HORMATS. Twice; the history is there have been several other occasions when we have been prepared to intervene, but between the time the order was given to the New York Fed and the time the Fed was looking to the market to intervene, the currency situation began to stabilize; for instance, the day of President Sadat's assassination, the beginning of the war in the Falkland Islands.

Mr. HAMILTON. Because of the statement at Versailles, are we now more likely to intervene than we would have been prior to Versailles?

Mr. HORMATS. I think the way I would put that, the answer to that is that as we indicated at Versailles we would intervene where there were disorderly markets and I think as a means of demonstrating our willingness to do this, we did intervene where we found a disorderly market following up Versailles, a couple of

weeks afterwards. I would say that where we find a disorderly market in the future, we would be willing to consider intervention.

Mr. HAMILTON. Do you have any definition of a disorderly market?

Mr. HORMATS. Well, that is something——

Mr. HAMILTON. Are there any guidelines?

Mr. HORMATS. That is something that has for years been sought. That is sort of the holy grail of the monetarist system to know exactly when a market is disorderly. You know it when you see it, or at least I think we do.

Mr. SHAMANSKY. Is that like obscenity?

Mr. HORMATS. Close.

In the minds of some people, it is virtually the same.

Mr. HAMILTON. Who makes that decision?

Mr. HORMATS. The Treasury normally in consultation with the Fed, and the decisions are implemented through the New York Fed, which has an intervention window.

Mr. HAMILTON. As a practical matter, is it made then by the Secretary of the Treasury and Mr. Volcker?

Mr. HORMATS. Normally the Secretary of the Treasury and the Under Secretary for Monetary Affairs would discuss it, probably talk to the Chairman of the Fed and then—or the Chairman of the New York Fed, which does the implementation. They would normally make a decision there.

POLISH DEBT TO THE UNITED STATES

Mr. HAMILTON. Let's talk a little bit about the Polish debt.

My figures indicate that as of June 14 the CCC has paid out $177 million to U.S. banks; is that correct?

Mr. HORMATS. Let me just check the figure. As of June 30, $187 million to the banks. The banks filed claims for another $1.4 million to the CCC with maturities through June 30.

Mr. HAMILTON. If you don't have any Polish payments, how much would the CCC payments be this year?

Mr. HORMATS. I have it here. The principal would be $632 million and the interest would be $131 million. That would be the potential amount that the CCC would have to pay off. Sometimes they might not be asked to pay it. If the bank chooses the option of trying to collect it or part of it itself.

Mr. HAMILTON. What have the Poles paid this year, either to private or public sectors? Have they paid anything this year in 1982?

Mr. NILES. I understand—you mean to the United States or overall?

Mr. HAMILTON. Either way.

Mr. NILES. We understand that during this year they have made payments of roughly $100 million, but their debt service obligations this year I believe are in the range of about $10 billion. So we are talking about a rather——

Mr. SHAMANSKY. You mean principal and interest?

Mr. NILES. Correct; yes.

Mr. HAMILTON. In other words, they have not paid any on principal so far as you know?

Mr. NILES. Not that I am aware of. I am not sure that $100 million figure we saw which went primarily to private banks included principal or interest or simply interest, but it was more or less a token payment given the volume of debt required this year, payments required this year.

Mr. HAMILTON. I have the figure that the Polish debt is accumulating at a rate of $875 million a month. Is that about right?

Mr. NILES. I saw $800 million as the figure. That sounds about right. That is to all countries, private and public.

Mr. HAMILTON. There is an article in The Wall Street Journal this morning on a meeting in London which says that a group of United States and West German bankers have drawn up an agreement for rescheduling Poland's 1982 commercial debt and providing them with additional new loans. The plan provides that Poland is to repay interest falling due in 1982 on 1982 loans and that if they do that, the banks will then provide half of that repaid amount in new short-term credits.

RESCHEDULING OF INTEREST PAYMENTS

Now, the impact of all of that, as I read it, is that the banks are going to be rescheduling interest payments. Do you know anything about that agreement? Are you informed on it?

Mr. HORMATS. We have been informed in general, but I have not seen the text of the agreement. It would be hard to comment on it without having seen that.

Mr. NILES. As a general rule, the banks do not accept the idea of rescheduling interest payments.

Mr. HAMILTON. That is what I always have heard up to this point.

Mr. HORMATS. Are you saying that the Poles would repay the interest and they would lend them half back?

Mr. HAMILTON. That is right. They would, in effect, pay nothing on principal and reschedule part of the interest.

Mr. HORMATS. What in effect they are doing is getting the principal repayments and then providing new credits with the economic impact being to offset half of the repayment.

Mr. HAMILTON. Are we giving the banks any advice at this point? Are we telling them how we feel?

Mr. HORMATS. We have kept pretty much a hands-off attitude toward the banks.

Mr. HAMILTON. Doesn't the U.S. Government have a lot at stake here?

Mr. HORMATS. Right. We have traditionally taken the view with respect to bankers' schedulings that we should not interfere in the rescheduling itself. Traditionally, the banks will reschedule after the Government has rescheduled and sort of key their terms on the Government's. They won't always take exactly the same terms, but they often key off the Government.

Mr. HAMILTON. Are we negotiating any rescheduling with the Poles?

Mr. HORMATS. No. We have indicated and there has been allied agreement among the NATO allies that we would not resume scheduling while the three conditions were unmet, the three condi-

tions Tom Niles mentioned a few moments ago. So we have not made any movement on that.

Mr. HAMILTON. Some are not going to negotiate as long as those three conditions are not met?

Mr. HORMATS. That was the decision made by the NATO countries and that has not changed.

Mr. HAMILTON. Therefore all we are going to be doing this year as a government, unless those conditions are met, is paying out to the banks.

Mr. HORMATS. Well, in terms of rescheduling, the impact—there is an economic point here. If there were a rescheduling, this hypothetical rescheduling, and the Poles didn't pay their money, as a result of a rescheduling, as opposed to not repaying as a result of an absence of rescheduling, the impact on the CCC obligations wouldn't change. In other words, CCC has to pay the banks under its obligations to the banks if the banks are not repaid the money under the CCC.

Mr. HAMILTON. By the Poles?

Mr. HORMATS. By the Poles under the CCC credits. Whether there is a rescheduling or not wouldn't have any direct impact on that point, only the question of whether the CCC should pay the money or not.

Mr. HAMILTON. But the likelihood then is that we are going to get hit with a very, very substantial bill from CCC to the banks?

Mr. HORMATS. Yes.

Mr. HAMILTON. In the neighborhood of $700 million or so?

Mr. HORMATS. Something like that.

Mr. HAMILTON. Is it true that the Poles want to borrow additional money from the West to assist them in repayment?

Mr. HORMATS. Oh, I am sure they would like to. I don't think there is a chance of their being net borrowers from the West. I think that would be hard to envisage that they would be.

As a matter of fact, one key point in the policy we are pursuing now is that by keeping the pressure on the Poles to get some money, not very much to be sure, but some, the net flow is from Poland to the West rather than from the West to Poland. And I wouldn't imagine that would change much.

Mr. HAMILTON. One of the high Polish officials said that because of the policies we are pursuing we are forcing the Poles to reorient their economy toward the Soviet Union and therefore are tightening the Soviet-Polish relationship. Is that correct? Is that correct—you are shaking your head?

Mr. NILES. Well, it is a theoretical possibility. Obviously if the Poles cannot import from the West, they could turn to the East. If they can't sell their products in the West, they could sell them to the East.

Mr. HAMILTON. Why is that so theoretical?

Mr. NILES. I say theoretical because it hasn't happened. The actual trade statistics during the first 6 months of this year, the 6-month period during which time our sanctions were in effect, show that actually the Soviet Union gave less rather than more assistance to Poland in the form of running a large trade surplus with Poland.

The Soviet trade surplus with Poland was less during the first 6 months of 1982 than during the first 6 months of 1981.

Mr. HAMILTON. What that really means is, I think is that, you're lowering the standard of living of the Polish people?

Mr. NILES. The Soviets are providing fewer resources to Poland——

Mr. HAMILTON. So is the West.

Mr. NILES. This is correct.

The West, on the other hand, is providing very substantial humanitarian assistance to the Polish people. We are providing substantial quantities, as are the West Europeans. The Soviets, so far as I know, are not providing such assistance.

Mr. HAMILTON. Do you think it is a desirable end for U.S. policy to force the Polish Government to be more dependent upon the Soviet Union?

Mr. NILES. As a general proposition, no. We have supported over time, for many years a policy seeking to reduce the degree of dependency in Eastern Europe on the U.S.S.R. to encourage the Eastern Europeans to increase their ties with us, through a policy of differentiation between them.

But under the circumstances, given the actions taken by the Polish Government under Soviet pressure last December, we have really little choice. I would point out, though, that in practice what has happened or what was predicted by the Polish Finance Minister and others has not happened. The Polish economy has not reoriented itself toward the Soviet Union, and significant figures in Poland have been quoted in the press as saying that this simply cannot happen.

Polish economists, Polish officials have said that this option really doesn't exist, that the Polish economy is so firmly integrated in some respects into the West through equipment purchases and purchases of complete plants that you cannot reorient the Polish economy away from the West.

The Poles have succeeded during the first 6 months of this year in doing one thing well economically: That is, running the coal mines. They have been militarized and the military apparently is doing a pretty good job of keeping up the coal production. They are increasing coal exports to Western Europe, fulfilling contracts which were not fulfilled last year, for example.

SOVIET CONFIDENCE IN POLISH GOVERNMENT

Mr. HAMILTON. Do you have any evidence that the Soviets have less confidence in Jaruzelski?

Mr. NILES. I think from the Soviet point of view a military government in a Communist country is, ipso facto, distasteful. I think the traditional attitude of the Soviet Communist Party toward the army is one of keeping the army very much under the party's control.

I think they find the solution devised in Poland with General Jaruzelski serving as head of government and head of party quite distasteful. They have people, one would assume, for example, Mr. Olszowski was recently demoted from the secretariat, or removed

from the party secretariat, whom they might find preferable. So far General Jaruzelski has maintained his position.

Mr. HAMILTON. Is he strengthening his position?

Mr. NILES. It is very difficult to say. You don't have the notes of the Politburo meeting or the central committee meeting, but he was able to remove a person who was thought of as being one of his rivals. Gorabski has been removed also.

Kociolek has been sent off as Ambassador to Moscow. Basically, some of the people identified as being hard-line opponents of General Jaruzelski have been moved into less important positions. Some of the more liberal people also have been moved into less important positions.

CURRENT SITUATION IN POLAND

Mr. HAMILTON. Is the current situation regarding food, shelter, and basic necessities for the Polish people loosening a little bit? Have there been any improvements?

Mr. NILES. As I understand it, the situation regarding availability of foodstuffs has been influenced very substantially by the price increases which were instituted, so that at the very high prices currently being charged, either in the state market or in the black market for meat, for example, there are adequate meat supplies to meet the demand. The fact is the people simply do not have sufficient funds to purchase meat today, for example.

Basically the food supply is not terribly good, not terribly bad.

Mr. HAMILTON. Mr. Shamansky?

DUMPING OF EUROPEAN STEEL

Mr. SHAMANSKY. Thank you, Mr. Chairman. Earlier we touched upon the question of steel and agricultural products. Steel coming in from Europe, agricultural products going from the United States into Europe. I am very much aware that we run a very favorable trade balance with Europe.

That sometimes is given as an excuse not to push the business about steel. We have been using the expression "orderly situation" and it seems to me it is not orderly to use our net, very significant net, trade balances somehow or other as an excuse to ignore our rules with respect to dumping.

What I am getting at is I disagreed with, say, the editorials I have seen in the Washington Post and the New York Times that because we have a net trade balance we should ignore our laws with respect to dumping of European steel in the American market.

What is the possibility of bringing some kind of order out of that situation even if it takes an orderly marketing agreement?

To do something other than the chaos we have now?

Mr. HORMATS. That is precisely what is now underway. As you doubtless know, a number of American companies have filed countervailing duty and active dumping actions against European steel. There has been a preliminary determination made by the Commerce Department that injury has occurred. There is also a finding, a preliminary finding on the margins of subsidy, and at present there are discussions under way between the United States and

representatives of the European community as to whether or not an agreement can be reached between the United States and Western Europe which would eliminate the impact of the injury to American firms. The law requires that whatever agreement is reached be seen to be satisfactory by the American firms, so in all of this what we are doing is trying to insure that we reach an agreement which is acceptable to the American firms that filed the cases.

This is really what we are after.

I should say to date an agreement has not been reached.

As you know, there have been differences over the items to be included in the agreement and also the degree of penetration which would occur if there were some sort of voluntary export restraints.

Mr. SHAMANSKY. As a lawyer, I think we should enforce the law. I think it is a terrible thing to ignore it and say, well, for foreign policy considerations, we will do this.

Mr. HORMATS. That is my point. The letter of the law is being enforced.

Mr. SHAMANSKY. Now it is. The companies are forcing it. I think the companies are within their rights. I think they are within their rights to do so. I think somehow or other we have to bring the law up to practice somehow or other.

It is bad to keep ignoring the law.

Mr. HORMATS. I think there is no question but that the companies are clearly within their rights to file the cases and the government is acting in a way which is consistent with the law, and, as such, is working to insure that whatever is agreed, if anything is agreed, it would be satisfactory to the American companies.

Mr. SHAMANSKY. Am I correct in thinking you are going to be leaving your post soon?

Mr. HORMATS. That is true.

Mr. SHAMANSKY. I would like to compliment you and Mr. Niles on being very good witnesses today. You are very well informed. I am happy for you, I guess, in general terms.

I am sorry for us that you won't be back soon in that job.

I just thought it was very informative and I regret I have to leave at this point.

Mr. HAMILTON. Mrs. Fenwick.

Mrs. FENWICK. Thank you, Mr. Chairman.

STRENGTHENING INTERNATIONAL INSTITUTIONS

It seems to me we have two ways to go. We can either try to strengthen GATT and all the arrangements that were made in order to have trade, both free and fair. That is what I wanted to ask you. I see you understand.

If we continue piecemeal to attack what we consider to be violations of those agreements, we endanger all agreements. I presume that is what you mean when you say that there must be some agreement that is being violated.

Efforts of other kinds that we know of, nontariff barriers and so on are a worry but we are going to have to take one route or another. Either we are going to say, "Look, we are going to freeze all

these complaints and strengthen the fabric or I think the fabric is going to shrivel away, be worn out, and we are going to get into a dog-eat-dog, suits, bad feelings." Have you any feeling for which path we are taking?

Mr. HORMATS. Well, we are clearly committed to take the path of strengthening the international institutions.

Mrs. FENWICK. Are we doing anything about it?

Mr. HORMATS. We are doing a great deal about it. There are several things.

First, perhaps the major international economic initiative of the United States over the last year and a half—not perhaps, certainly the major national economic initiative has been the effort to develop a consensus within the OECD and within the GATT for strengthening the rules of the GATT, both making the GATT work better and making the GATT rules extend to areas where the GATT rules are either nonexistent or are ambiguous.

In the area of agriculture, for instance, GATT rules are ambiguous. Europeans interpret them one way, which is quite different from the way we interpret them. There are no rules to speak of in certain areas of services.

In the area of high technology, there is a great deal of government intervention and in some cases the rules do not adequately apply.

There are increasing numbers of distortions in the trade area relating to investment and in all these, unless we are able to deal with the problems through international rules, in every dispute they will be tests of political strength, one country fighting the other without the benefit of international rule to resolve the difference.

For that reason it is extremely important we make progress. If we don't make progress multilaterally, countries are going to want to take unilateral action.

I think that is particularly important that we avoid the pressures to act unilaterally by having fair rules multilaterally.

The second point you raised, COCOM, is extremely important as well.

There is clearly, in the judgment both of the United States and I believe other countries, an erosion of strategic technology from the West to the East. Tightening up COCOM can enable us to do two things; one, update the rules and lists of COCOM and two, to improve considerably the policing mechanism both internally and among countries; so these are two important things where we are trying to make progress.

Three, the OECD. That is really the major vehicle for coordination of policies among developed countries. We have really devoted a lot of time and attention to making that work better; in particular, as I mentioned earlier, we, for the first time, in the Executive Committee meeting last week, began a serious discussion of East/West economic relations in the OECD.

The first time we tried to do that was in 1975 or 1976–77—and countries were unwilling to do it. Now I think there is a maturity about this which is extremely important.

As chairman of the U.S. delegation, I had a number of private conversations with the chairmen of the other delegations.

I think everyone felt this was a good opportunity for getting an international look at this rather than having countries look at it unilaterally on their own. I think that was a good step. That is why I said at the outset, despite all the problems which I did not mean to minimize, we have been able to make some progress in this period.

Mrs. FENWICK. One more question:

TECHNOLOGY LENDS TO THE SOVIETS

Do you have specific examples that you know of, whether you can tell us or not, of how the Soviets have taken advantage of technology leaks?

Mr. HORMATS. Yes. We have put together a very extensive study of the leakage of technology to the Soviet Union. There are just a large number of things that we have been able to get hold of. When you look at the item, it looks just like its equivalent in the West. There is a highly classified briefing which goes into this in some detail, and I must say it startles one to see just how much technology has leaked from the West to the East and the implications of that are extremely serious.

First of all, it enhances the quality of the Soviet military capability and, of course, that requires that we in the West spend additional sums of money in our own military budgets to offset that amount in the Soviet budget.

In my judgment, that is one of the most serious problems we have got. That is to get an allied consensus for strengthening COCOM and the police mechanism.

Mrs. FENWICK. Is there any indication of one country of origin being the source more than another? You don't have to tell us if you would rather not.

Mr. HORMATS. I don't think any country in the West, in the COCOM, willingly permits the leaking of technology to the Soviet Union. Some have better police mechanisms than others. There also is the problem of the third country and that is the country which is not a COCOM member, but tends to be a little more porous.

U.S. ASSISTANCE TO GREAT BRITAIN

Mr. HAMILTON. What was the extent of our assistance to Great Britain in the Falkland Islands dispute?

Mr. NILES. Mr. Chairman, our assistance to Great Britain in the Falkland Islands dispute took two forms. There was political support, support in the United Nations for the resolution, original Security Council resolution, which condemned the Argentine action.

The Secretary of State's extensive efforts to prevent armed conflict, of course, was not directly to support Britain, but rather to find a peaceful solution.

That, of course, was very much with the support of and understanding of the British Government.

We also provided various types of support to Britain in line with our traditional military relationship with that country.

Mr. HAMILTON. How many dollars did we provide?

Mr. NILES. I am not in a position to say, sir.

Mr. HAMILTON. Who would be?

Mr. NILES. I imagine we can get that information for you. I do not have it. To a certain extent this was not a question of providing aid. It wasn't that we were giving the British anything. We made certain facilities available to them.

As you know, certain purchases for which the British might have had to wait a longer period were expedited. The provisions were expedited.

[The information submitted follows:]

Question. How much "assistance" did the U.S. give to the U.K. during the Falklands crisis? What were the terms of payment?

Answer. All major defense equipment valued at $14 million or more that we provided to the U.K. during the Falklands crisis was notified to Congress under Section 36(b) of the Arms Export Control Act (AECA). Sales to the U.K. and other countries worth $1 million or more are reported quarterly to Congress under Section 36(a) of the AECA. The terms of payment were cash for all sales to the U.K.

Mr. HAMILTON. So there was no assistance as such?

Mr. NILES. Except in the form of making certain facilities available.

Mr. HAMILTON. No fuel provided or anything like that?

Mr. NILES. But again it was not provided gratis. The British paid for what they got.

Mr. HAMILTON. How greatly has the shift to the British forces into the South Atlantic hurt their NATO role? Who has picked it up?

Mr. NILES. Adjustments have been made. Other countries have sent naval units, for instance, into the North Sea.

The Germans, for example. The question is more one of how long the British forces involved in the Falkland Islands dispute, the conflict will remain away from their NATO stations. At this point it is not really possible for me, or I think even for the British, to say what forces, and for how long, will be away.

U.S. ANTISUBMARINE PATROLLING

Mr. HAMILTON. Are we doing some of the antisubmarine patroling in the North Sea that was formerly done by the British?

Mr. NILES. Yes. Other countries are picking it up.

Mr. HAMILTON. Could you give me a report on the extent of our assistance to Great Britain and likewise what we are doing and what NATO is doing to pick up the slack?

Mr. NILES. Subsequently, you mean?

Yes, I will.

[The information submitted follows:]

British forces were never withdrawn from their NATO commitment during the Falklands crisis. The British have stated that they remain committed to the fulfillment of their NATO obligations. The reaction time of some British units to a NATO crisis might have been delayed in some cases during the crisis. The degree to which British forces will be required to remain in the South Atlantic, the time period, and whether or not these forces will continue to be NATO-committed are unknown at this time.

U.S. ASSISTANCE TO SPAIN

Mr. HAMILTON. We just had a new agreement announced with Spain. Is Spain going to receive $415 million a year in assistance as a result of that agreement?

Mr. NILES. There was a new agreement signed the end of last month with Spain which does provide conditions for the continued use by the United States of facilities in Spain. It does provide for assistance to maintain and modernize the military forces in Spain. There will be in the legislation, in the administration's proposal for security assistance this year, provisions for Spain which will be continued. There is——

Mr. HAMILTON. $415 million?

Mr. NILES. I don't have the figure right at hand, Mr. Chairman.

Mr. HAMILTON. Does that sound right?

Mr. NILES. It does sound about right.

Mr. HAMILTON. How long is the agreement for?

Mr. NILES. That I can't say. I am sorry.

Mr. HAMILTON. Let me know that, would you please?

[The information submitted follows:]

SPAIN—SECURITY ASSISTANCE

Question. How much security assistance is the Administration requesting for Spain?

Answer. The Administration's fiscal year 1983 security assistance request for Spain is $400 million in Foreign Military Sales (FMS) guaranteed credits, $12 million in Economic Support Funds (ESF) and $3 million in International Military Education and Training (IMET).

ASSURANCE FOR USE OF U.S. BASES

Mr. HAMILTON. Is the U.S. use of the four bases assured?

Mr. NILES. Under the conditions in the agreement, yes, sir.

Mr. HAMILTON. Can the bases be used for non-NATO contingencies?

Mr. NILES. Under certain conditions.

Mr. HAMILTON. What are they?

Mr. NILES. Well, these involve the notification to the Spanish of the contingency and the type of——

Mr. HAMILTON. Can we use them in the event of a Middle East crisis?

Mr. NILES. Under certain circumstances; yes, sir.

Mr. HAMILTON. When can we not use them?

Mr. NILES. The Spanish Government would have to agree to certain uses of the facility, sir.

Mr. HAMILTON. Suppose we want to use the bases for purposes of supporting friends in the Middle East?

Mr. NILES. It would depend upon the nature of the activity, sir.

Mr. HAMILTON. Tell me when we could not do it.

Mr. NILES. This would be a case where the Spanish did not agree.

I would like to respond more fully. I was not personally involved in these negotiations. Perhaps we could respond subsequently on this point.

Mr. HAMILTON. I am particularly interested in knowing whether the bases can be used for non-NATO contingencies.

Mr. NILES. Yes, sir, I will check into that.

[The information submitted follows:]

SPAIN—BASES

Question. Is US use of these bases assured for non-NATO contingencies such as a crisis in the Middle East?

Answer. US use of the bases is not unrestricted. We have agreed to seek the prior approval of the Spanish government in certain instances.

NATO COMMAND STRUCTURE

Mr. HAMILTON. Now, that Spain has come into NATO, Portugal is demanding that its NATO forces be under separate command. Is that correct?

Mr. NILES. The NATO Command Structure in the Iberian Peninsula is now under review.

New provisions obviously have to be worked out to accommodate Spain's membership in the alliance.

Mr. HAMILTON. Are you going to treat Portugal and Spain in the same way?

Mr. NILES. Yes.

Mr. HAMILTON. Will we leave the Portuguese forces under the Supreme Allied Command-Atlantic, and place the Spanish forces under Supreme Allied Command-Europe?

Mr. NILES. That question is currently under discussion. The command relationships are something which will take a bit of time to work out.

It is under discussion. Spain has only been a member of the Alliance since the 10th of June, and it takes a bit of time.

[The information submitted follows:]

Question. Now that Spain is in NATO, what command relationships are being worked out for Spanish and Portuguese forces?

Answer. Command relationships are among many complex issues involved in the integration of Spain into NATO's military structure. These issues are currently the subject of discussion between Spain and NATO authorities. Specific command relationships have not been developed as yet in these discussions. The outcome of these discussions will eventually be considered formally in appropriate NATO fora where the United States along with the other Allies will be represented.

Mr. HAMILTON. Do you have any further questions, Millicent?

Mrs. FENWICK. No; I do not.

Mr. HAMILTON. Well, let me thank you, gentlemen, for your appearance this afternoon. I want to stress again what I said at the beginning of the session. It is my desire to have these sessions once a month, and it has taken us 3 months this time to get one scheduled; so I hope you will convey to your new Secretary and the other powers-that-be that I want to have these hearings every month, and not have to go through the trouble to schedule them as we did today.

I know that is not your fault.

Mr. NILES. During August, too?

Mr. HAMILTON. I am ready for August.

We will have one the middle of August, one the middle of September. We may skip October; I don't know about that one.

Mrs. FENWICK. For the record—I would like to say something for the record, Mr. Chairman, which I have said privately—how much we are going to miss Mr. Hormats. I am so glad we are not going to miss Mr. Niles. It means so much to have someone so candid and

who tells us what he believes to be true. You can't ask more from anyone, and this has been a great source of satisfaction and comfort to this committee—at least to this member of this committee. It is going to be terrible whenever you go.

Mr. HAMILTON. We wish you well, Mr. Hormats, in your new assignment, whatever that may be.

Mr. HORMATS. Thank you.

Mr. HAMILTON. The subcommittee stands adjourned.

[Whereupon, at 4:17 p.m., the subcommittee adjourned, to reconvene at the call of the Chair.]

APPENDIX

BIOGRAPHIES OF WITNESSES

HON. ROBERT D. HORMATS, ASSISTANT SECRETARY OF STATE FOR ECONOMIC AND BUSINESS AFFAIRS

Robert D. Hormats of Baltimore, Maryland, became Assistant Secretary of State for Economic and Business Affairs on May 21, 1981. The Bureau of Economic and Business Affairs is responsible within the State Department for the formulation and implementation of U.S. foreign economic policies in such areas as trade and commercial affairs, international resources and food policy, international energy policy, international finance and development, and transportation and telecommunications.

From 1979 to May 1981, Mr. Hormats served as Deputy United States Trade Representative, with major responsibility for the develoment and implementation of United States trade, commodity, and investment policy. During this period, Mr. Hormats was chairman of the interagency Trade Policy Review Group (TPRG) and chairman of U.S. Delegations to bilateral committees and working groups on trade with the European Community, Japan, Canada, Mexico, Nigeria, and other countries. He was also a member of the U.S. Delegation to the Venice Economic Summit.

From 1977 to 1979, he served as Deputy Assistant Secretary of State for Economic and Business Affairs. His responsibilities included chairmanship of various interagency committees, membership on a team coordinating preparation for President's participation in the Bonn and Tokyo Economic Summits, and chairmanship of U.S. delegations to United Nations and OECD committees. He prepared and coordinated economic policies on Europe, Japan and other countries.

From 1974 to 1977, Mr. Hormats served as a Senior Staff Member for International Economic Affairs on the National Security Council. In this capacity, he was the senior economic advisor to Dr. Henry Kissinger, General Brent Scowcroft and Dr. Zbigniew Brzezinski. His responsibilities included providing policy advice, and coordinating interagency positions, on international monetary, trade, development and energy issues. He played a major role in preparation of Presidential participation in the Rambouillet, Puerto Rico, and London Economic Summits.

From 1969 to 1973, Mr. Hormats was a staff member for International Economic Affairs on the National Security Council. In 1973 he received an International Affairs Fellowship from the Council on Foreign Relations and, as a Council Fellow, spent a year as Guest Scholar at the Brookings Institution.

Mr. Hormats received his A.B. from Tufts University in June 1965, with a concentration on economics and political science. In 1966 he received an M.A., and in 1969 a Ph.D. from the Fletcher School of International Law and Diplomacy of Tufts, with a concentration on international economic issues.

THOMAS M. T. NILES, DEPUTY ASSISTANT SECRETARY FOR EUROPEAN AFFAIRS

Personal: Born September 22, 1939, Lexington, Kentucky; married to Carroll Ehringhaus, born Charlotte, North Carolina; two children ages 12 and 9.

Education: BA at Harvard 1960; MA at University of Kentucky 1962.

FOREIGN SERVICE EXPERIENCE (ENTERED FEBRUARY 1962)

January 1963–April 1965: Junior Officer at Embassy Belgrade.

April 1965–June 1967: Economic Officer, Office of Soviet Union Affairs, Department of State.

July 1967–June 1968: Russian Language Training.

July 1968–July 1971: Economic/Commercial Officer, Embassy Moscow.

August 1971–October 1973: Political Officer, U.S. Mission NATO, Brussels.

November 1973–July 1976: Director of Commercial Affairs, Embassy Moscow.

August 1976–June 1977: National War College.

July 1977–May 1979: Deputy Director, United Nations Affairs, Bureau of International Organizations, Department of State.

May 1979–May 1981: Director, Office of Central European Affairs, Department of State.

June 1981–present: Deputy Assistant Secretary for European Affairs, Department of State.

Languages: French, Russian, German, Serbo-Croatian.